



# Making Growth More Inclusive: The Sri Lankan Experience

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# Introduction



- Inclusive growth strategies now increasingly popular among developing Asian economies which have faced rapid growth and rising inequalities in the recent past
- Following the ending of the separatist conflict in May 2009, growth prospects for Sri Lanka look promising
- But sustaining growth and ensuring peace depends on reducing disparities and improving opportunities for participation in development
- Despite exceptional human development, significant challenges remain in the Sri Lankan economy, especially in a post-conflict setting as was highlighted in the latest MDG report
- It is imperative that sources of exclusion are identified and addressed to sustain the growth momentum in the long-run



# TRENDS & PATTERNS OF GROWTH & INCLUSIVENESS

# Economic Growth



- Sri Lanka has experienced an overall increasing trend in economic growth, both in terms of real GDP growth and growth in GDP per capita
- Growth performance has been impressive in the post-conflict period – average GDP growth rate of **7.5%** recorded in the 2010-14 period
- Per capita GDP has also grown at similar levels, indicating a general improvement in living standards
- Sri Lanka categorized as a lower middle-income country by the IMF in January 2010

# Economic Growth Cont.



### GDP and GDP Per Capita Growth Rates, 1980-2013

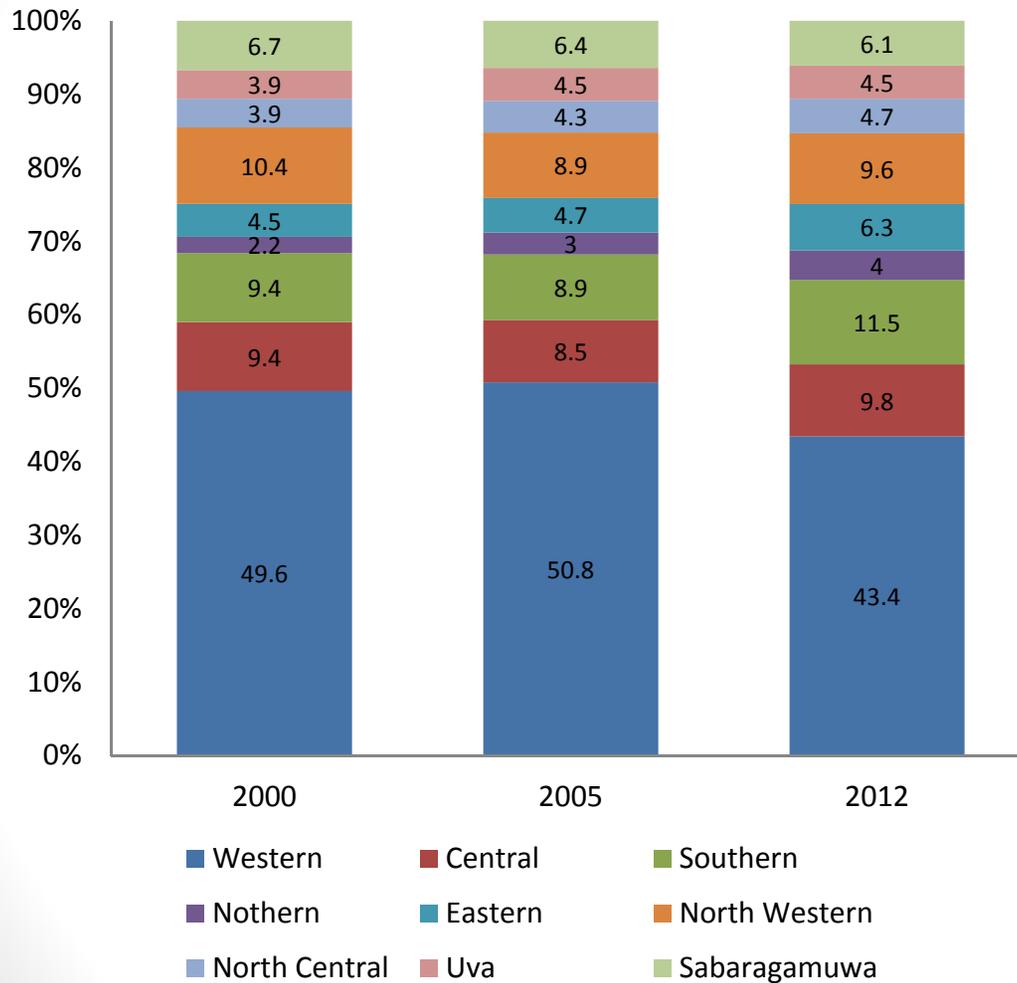


Source: World Bank, *World Development Indicators 2014*.

# Economic Growth Cont.



Contribution to GDP by Province



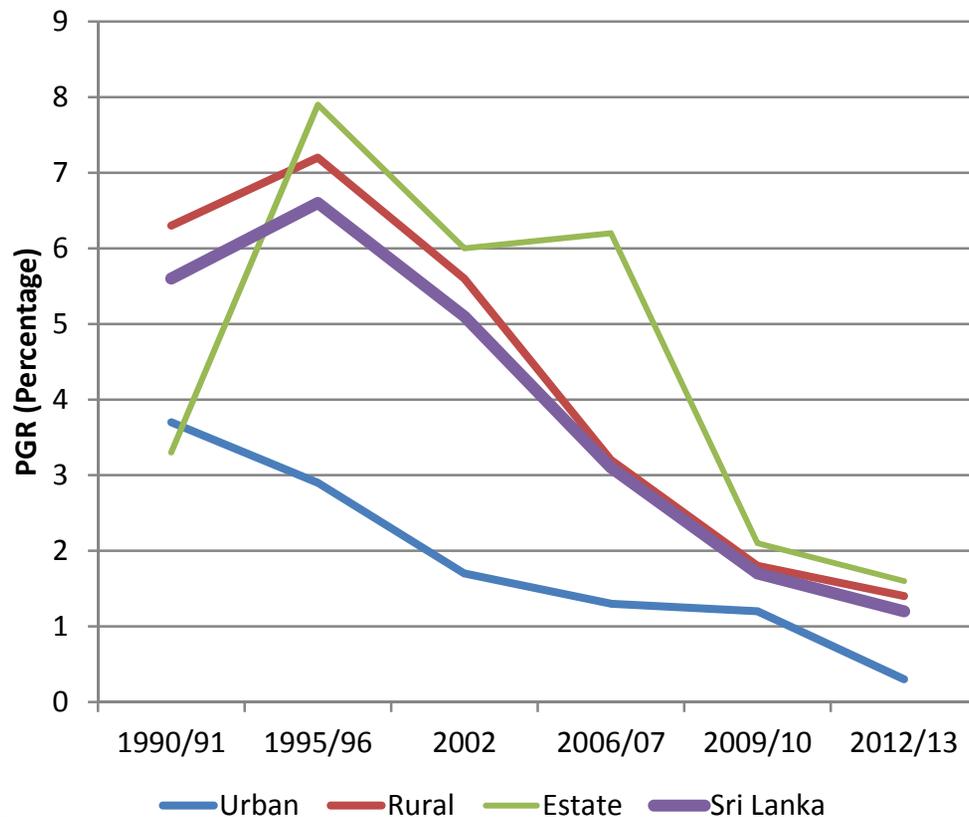
- Mixed contribution to growth across provinces
- Economic activities remain highly concentrated in the Western Province, but its share has declined overtime
- Marginal increases in shares of other provinces, most notably the Southern province
- Rise in the contribution in the Northern & Eastern provinces following end of war

Source: CBSL, *Annual Report*, Various Issues

# Poverty



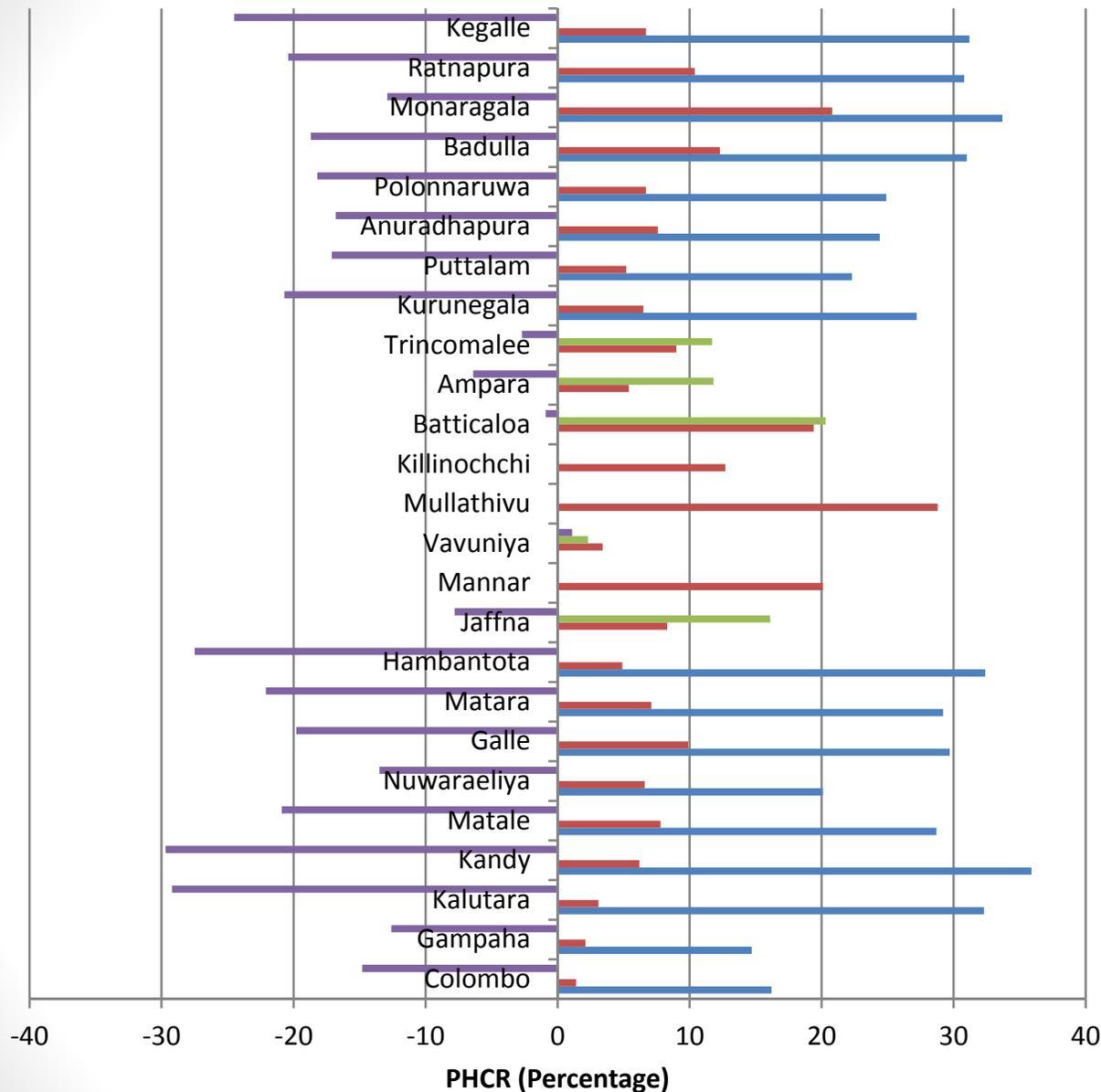
PHCR in Sri Lanka and by Sector



Source: DCS, HIES, Various Years

- Drop of poverty headcount ratio (PHCR) from **26.1%** to **6.7%** between 1991 & 2013
- Declines also at sectoral level
- But a large number are just above the PL – national estimate more than doubles when US\$ 2 PL is considered
- Also, poverty reduction has not always moved inline with GDP growth – drop of PHCR by **1.1%** from 1990-2002 compared to GDP pc growth of **4%**

## PHCR in 1990/91 & 2012/13 by District



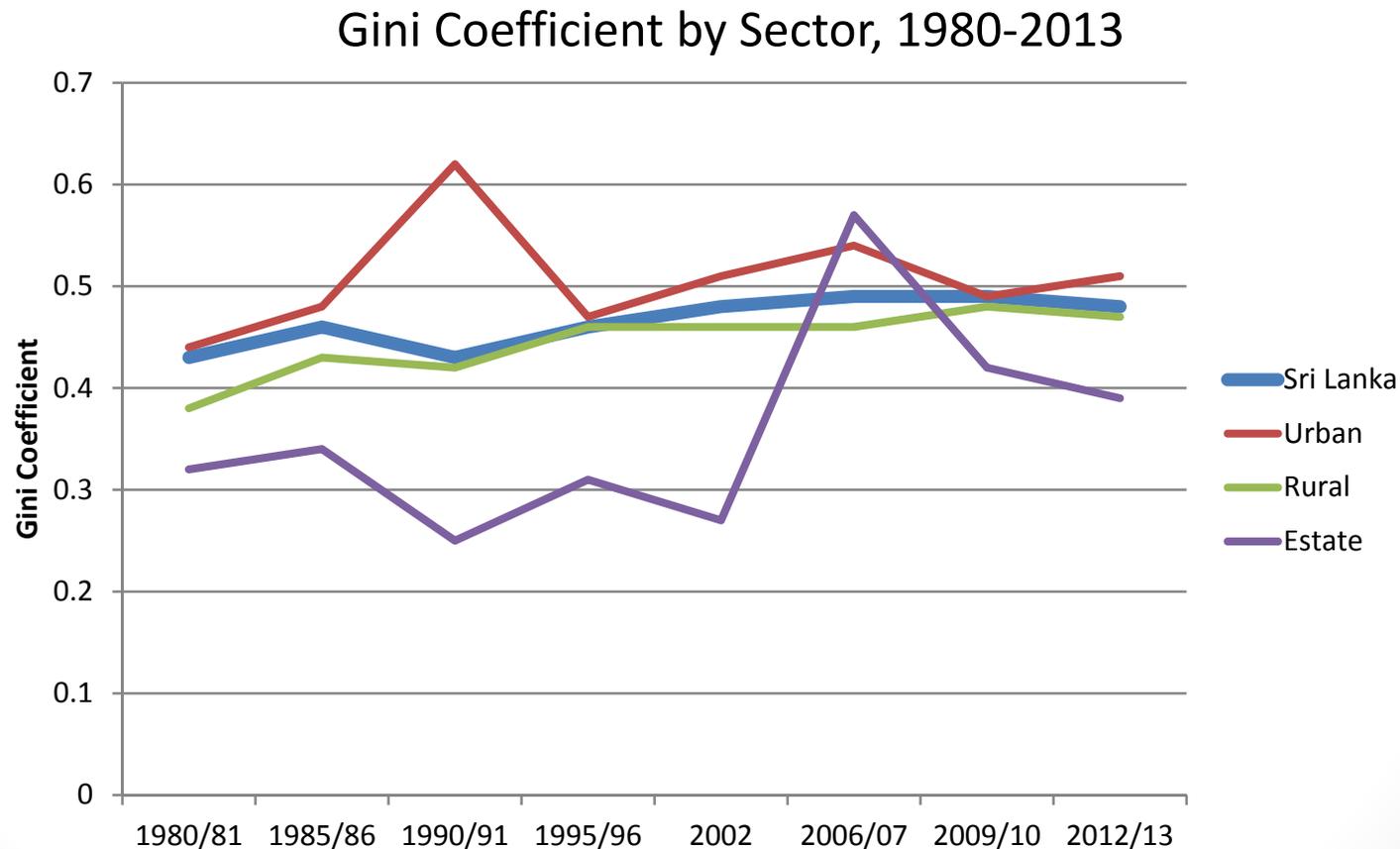
- Disparities persist across provinces and districts
- However poorer regions are recording greater reductions in poverty
- Conflict-affected areas record highest incidence of poverty, but showing notable declines

■ Difference in PHCR between 1990/91 & 2012/13 ■ 2009/10 ■ 2012/13 ■ 1990/91

# Income Inequality



- Income inequality has seen an increasing trend – rapid growth & poverty reduction have not trickled down to the lower income groups in the country



Source: DCS, HIES, Various Years.

# Income Inequality Cont.



- Persisting gaps in percentage shares of income of the lowest and highest quintiles of the population

Share of Income by Richest and Poorest Income Quintiles

Year	Lowest 20% (1 <sup>st</sup> Quintile)	Highest 20% (5 <sup>th</sup> Quintile)	Ratio of Highest to Lowest (Quintile Dispersion Ratio)
2002	4.8	53.7	11.2
2009/10	4.5	54.1	12.0
2012/13	4.5	52.9	11.8

Source: DCS, *HIES*, Various Years.

- The war has created new form of social inequalities in the form of entitlement failures
- A World Bank study (1997) shows that the increase in inequality between 1990-2002 prevented the decline in poverty by over 15 percentage points

# Access to Social Services



- Growing inequality is explained mainly by growing disparity in households' access to education, health and infrastructure
- The mean distance for accessing education and health facilities tend to be higher for poor households
- A relationship can be observed between poverty incidence and mean distance of accessibility:
  - Mean distances to the nearest accessibility points for schools and hospitals are highest in the estate sector and lowest in the urban sector
  - The mean distance from HHs to the nearest hospital in Moneragala is **11.2km**, compared to only **4.2km** in Colombo

# Access to Infrastructure



## Access to Infrastructure by Sector (Percentage of Households)

Sector	Access to Safe Drinking Water (2012)	Access to Improved Sanitation Facilities (2011)		Access to Electricity for Lighting
		Toilet Facilities	Disposal of Garbage	
<b>Sri Lanka</b>	<b>88.7</b>	<b>89.8</b>	<b>20.4</b>	<b>88.9</b>
Urban	98.7	88.6	<b>74.9</b>	97.0
Rural	89.0	90.8	<b>9.2</b>	87.5
Estate	<b>43.2</b>	75.9	<b>7.8</b>	82.8

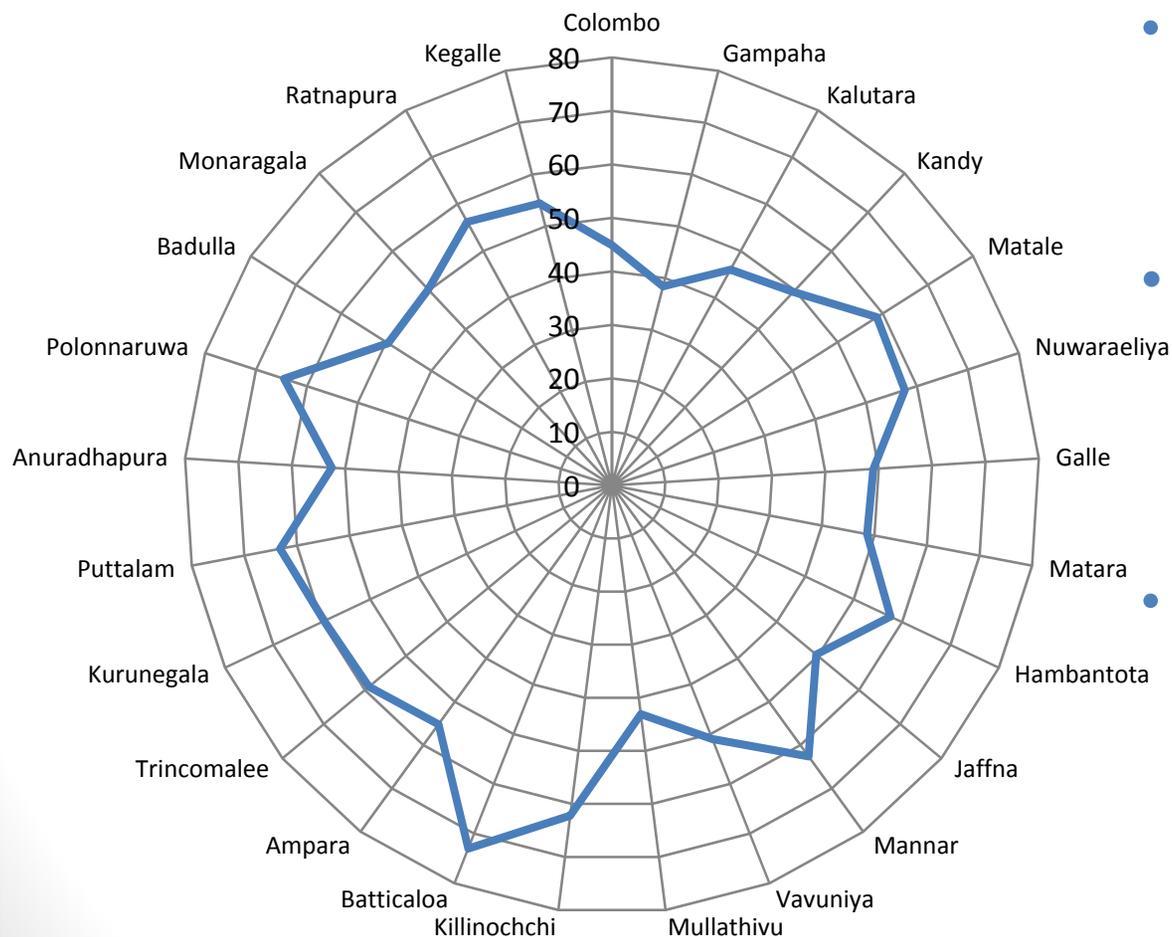
Source: DCS, *Census of Population & Housing 2012*

- Poor access to safe drinking water in the estate sector
- Wide sectoral variations in disposal of garbage
- Access to electricity is more equitable

# Informal Sector Employment



Proportion of Informal Sector Workers in Total Employment, 2012



- Informal employees account for **61%** of total employed
- **85%** in the agricultural sector and **50%** in the industry and services sectors
- Notable variations between districts – lesser developed districts account for more informal workers

Source: DCS, *Census of Population & Housing 2012*

# Gender Equity



- Mixed progress in achieving gender equity across various indicators
- Has achieved gender equality at all educational levels:
  - Increase in the ratio of girls-to-boys enrolled in all levels of education
  - Gender parity in enrolment at the university level –share of female undergraduates almost **60%** in 2010/2011
- Yet, employment outcomes reveal a very different picture:

Indicator	Females	Males
Employment-to-population ratio	<b>30%</b>	70%
Labour force participation	<b>30-35%</b>	70%
Unemployment rate	<b>6.6%</b>	3.2%



# POLICIES TO MAKE GROWTH MORE INCLUSIVE

# Sustainable Growth



*2006-2016 Agenda items continuing with some changes after January 2015 Budget*

## Physical Infrastructure

- Randora Programme – national level programme
- ‘Gama Neguma’/’Maga Neguma’ – small scale infrastructure facilities in regions which follow participatory methods for rural development
- ‘Negenahira Navodaya’ & ‘Uthuru Wasanthaya’ – infrastructure development in Eastern & Northern provinces
- Capital expenditure has been reduced from average 6% of GDP to 4.5% in 2015

## Tax Reforms

- CESS imposed on all exports of raw & semi- processed items to encourage VA exports
- Reduction of taxes on import of machinery and equipment
- Reduction of taxes on exports & on industries with VA
- Restructuring tax system to promote finance and ICT
- Gradual shift to direct taxation with “super-gain” and “mansion” taxes in 2015

# Social Inclusion



## *Human Development – Education*

- Since 1945 education is free from Grade 1 to the degree level and is universal
- Several policies implemented over the years to remove regional disparities and improve quality of education:
  - Establishment of central colleges (1940s),
  - Implementation of common-curriculum (1970s),
  - intervention strategies to compensate for socio-economic differences (Grade 5 scholarship programme),
  - District-based university enrolment system (1979),
  - Free school textbooks/midday meal/uniform material,
  - Subsidized transport facilities, initiating new Universities (after 1994),
  - Mahindodaya School Development Programme (2012), etc.

# Social Inclusion Cont.



## *Human Development - Health*

- “Health Unit System”, staffed with physician, nurses, midwives and a sanitary inspector, to provide comprehensive health care services to mothers and children (mid 1920s)
- Construction of maternity homes, rural hospitals & cottage hospitals (1930s)
- Free Health care services provided free of charge to all citizens since 1951
- Policy on private practice – has helped in retaining many qualified medical specialists and doctors in the country,
- Compulsory posting of all newly appointed doctors to all the regions of the country, etc.

# Social Inclusion Cont.

## *Social Assistance & Welfare*



### Samurdhi Programme

- Largest poverty alleviation programme in SL
- Initiated in 1995; **1.6 mn** HHs covered by end 2008
- Provides social assistance, social welfare and social insurance for the poor
- Adopts short-term strategies to reduce vulnerability of the poor and long-term strategies to assist them to move out of poverty

### Divineguma Programme

- A multi-pronged programme to develop the rural economy, reduce poverty, address malnutrition and move to organic farming techniques
- Aims to establish **2.5mn** healthy and economically empowered HHs covering all villages
- Includes activities such as home-gardening, fishery & animal husbandry, eco-friendly living patterns & good community health practices

# Social Inclusion Cont.



## Social Insurance Schemes

- Micro-insurance programmes mainly provided by microfinance institutions:
- The Sarvodaya Economic Enterprises Development Sector (SEEDS), Women's Development Bank, Yasiru Mutual Provident Fund, and Sanasa Insurance Company

## Labour Market Policies

- Two main retirement schemes that target informal sector workers – Farmers' Pension and Social Security Benefit Scheme and the Fishermen's Pension and Social Security Benefit Scheme
- In addition to the income component, there are social security benefits such as disability, disablement gratuity, and death gratuity

# Policy Challenges



Sustaining growth and addressing disparities

- Debt-financed infrastructure to PPP
- Strengthening direct taxation
- N&E need accelerated development

Declining H&E Expenditures and deteriorating quality of services

- Teacher shortages, 80% or more University admission students exclusion, 1.8% of GDP expenditure allocation for education (far below the UNESCO target of 6% of GDP), etc., are all issues that contribute to education exclusion
- Rapid ageing of population, increase in NCDs, Child malnutrition, spread of epidemics like Dengue, are new challenges in the health sector. Public health expenditure allocation 1.3 % GDP is below the developing country average and far below the WHO target of 4% of GDP is a factor that contributes to health exclusion

Poor targeting of welfare programmes

- Has led to greater inequality – benefits shared are disproportionate to the income level of HHs

Issues with social security schemes

- Lack of reinsurance facilities & human resources in developing micro-insurance
- Low coverage/inactive membership, low levels of benefits, high administration costs, financial instability of retirement schemes

# Meeting the Challenges



## More focus on regional economic development

- Cover all regions, with special attention on helping the most deserving and vulnerable groups in each region
- Specific focus on reconstruction & reintegration in conflict-affected areas

## Better targeting of welfare programmes

- More focus on targeted interventions
- Put in place mechanisms to properly identify those deserving the most assistance and to ensure they are covered
- Improve service delivery systems, especially at the grassroots level

# Recommendations Cont.



## Create suitable employment opportunities for women

- Create opportunities in all regions
- Initiate flexible working hours and/or working from home on a contract basis
- Invest in training females for higher skilled occupations such as in IT, nursing and hospitality industry

## Improve the institutional environment

- Address sources of exclusion – availability of credit across the country/legal environment with regard to gender equality
- Identify specific causes of disparities and inefficiencies and recommend remedies



Thank you